



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

THE FUNDAMENTAL ECONOMIC PRINCIPLE.

IT is the judgment of the writer of this article that by placing a stronger emphasis than has yet been done upon the fundamental and universal economic relation, making it so prominent that it cannot, for a moment, be lost sight of even from the most remote quarter of the field, an important contribution may be made to sound economic theory. This is the only apology offered for the appearance of the present article.

Three primary facts lie at the basis of all economic phenomena; namely, man, man's environment—the outside world, nature—and the dependence of man upon nature. Man has a legal as well as an economic relation to his material environment. The relation is legal, in so far as it is one of right, of ownership, of control. On the other hand, it is economic, in so far as it is one of dependence, of well-being, of want-satisfaction—a relation which may very properly be called the weal-relation.

This weal-relation of man to the outside world—the fundamental and universal economic relation—is, in Professor Giddings's phrase, the economist's "unit of investigation." It is the fundamental and universal economic principle—the pole-star by which all economic reasoning must be steered. When this is lost sight of, as we shall point out, the economic barque begins to drift. The mutual exchange of commodities may obscure it for a time; it may seem, indeed, to have been completely superseded by the dependence of man upon man. But, in reality, what the laborer receives from his employer is but his share of the return which society, by collective effort, has wrested from external nature. However important and absorbing the relations of men to each other may seem to be, these relations can be correctly apprehended

only in the light of the fundamental and universal dependence of man upon the outside world.

Man is not the "unit of investigation"; yet there can be no correct reasoning in economics without a sound basis of anthropological fact. Nature is not the "unit of investigation"; yet a knowledge of the laws of nature is a prerequisite to sound economic thought. The weal-relation of man to his material environment is the essential thing, of which economic science is aiming to give a complete, a scientific description. This is what is left after "stripping away from the subject of investigation all irrelevant, accidental, and occasional facts." It is "simple, elementary, persistent," universal. It is so plain and simple that the classical economists have scarcely a word to say about it. It is so self-evident that it seems presumption, almost, to dwell upon it. All of the sciences, even sociology itself, pay it tribute. Every fresh contribution to our knowledge of nature, every fresh contribution to our knowledge of man, every change that is made in the processes of production, reacts as a dynamic upon it.

The adjective economic,* when employed in our science, always signifies *pertaining to the weal-relation of man to his material environment*. All the conceptions, activities, relations and conditions, which grow out of that dependence, are very properly called economic. The science which deals with this relation is economic science. Were there no dependence of man upon nature, there would be no economic life and no economic science.

The scope of our science is, then, perfectly clear. Everything that has a bearing upon the weal-relation of man to his material environment, and in so far as it has such a bearing, is an economic phenomenon, and, as such, is properly a subject for economic investigation.

To one who has fully grasped the simple, elementary and fundamental economic principle of the dependence of

* The etymological signification of the term makes this clear.

man, on the one side, upon his material environment, on the other,—a dependence which no amount of human ingenuity can eradicate, the same now as in the beginning,—it will readily appear that there is a starting-point and a goal to the economic process, which our science must recognize. Economists have not been predestined to reasoning in a circle, as a study of much of our literature would seem to indicate. An examination of man's nature reveals in the want and its satisfaction the motive and the goal of economic life: a study of man's environment reveals in the "weal-constituting" elements the objects of economic striving. As Böhm-Bawerk * puts it, "The care of mankind for its own well-being is the ultimate motive force of all economic action." "The starting-point and the goal of our science," says Roscher,† "is man."

Our science begins, then, with the investigation of the nature of man, as a being dependent upon his material environment. The result is the doctrine of economic wants — wants which can be satisfied only by contact with external nature and, therefore, constitute the motive to economic activity. It does not come within the scope of this article to enter into the analysis of this doctrine. It suffices to call attention to the fact that its fundamental importance, though not apprehended by the earlier economists, is now generally recognized. ‡

On the other hand, an examination of external nature, with reference to its relation to man's wants, leads to the doctrine of economic goods, likewise of fundamental importance in our science. The concrete things in the external world may be classified, at any given time, with reference to their relation to man's wants, as goods and non-

* "The Austrian Economists." *Annals of the American Academy of Political and Social Science*, vol. i. p. 379.

† *System der Volkswirtschaft*, vol. i. p. 1.

‡ Jevons, *Theory of Political Economy*, chap. iii.; Clark, *The Philosophy of Wealth*, chap. iii.

goods. The former are want-satisfying things; the latter lack this quality. Further, goods may be classified as free goods and economic goods. While the former are relatively so abundant that they are accessible to all without labor and without sacrifice, the latter are relatively so scarce that men must, in general, undergo some labor or sacrifice in order to obtain them.

In earlier times, political economy concerned itself mainly with a sort of natural history of economic goods. It explained how they came into existence, how they circulated from one to another, and, finally, how they closed their careers as articles of "immediate consumption," or continued them for some time longer as articles of production. These economic goods were called wealth—a term peculiarly fitted, on account of the transition in meaning which it was undergoing, to befit the whole subject of investigation. There is a subjective element in the conception of wealth, which cannot be adequately grasped by any writer who regards economic phenomena as essentially objective.

Though Adam Smith * did not define wealth, it is clear that he had in mind certain "subjects" or "vendible commodities" which last, for some time at least, after the labor to which they owe their existence is past. Thus, upon the very threshold, as it were, the unfortunate controversy over the meaning of the term "wealth" was introduced, upon the outcome of which the very scope of the science was made to depend. Emphasis was laid by successors of Adam Smith upon the "permanence," the "materiality," the "utility," the "value," the "transferability" of things. "Some degree of duration and a consequent susceptibility of accumulation seem to be necessary to our usual conceptions of wealth," says Malthus.† Senior ‡ says, "Under that term we comprehend

* *Wealth of Nations*, vol. ii. p. 2. I cite the London edition of 1796.

† *Principles of Political Economy*, p. 35.

‡ *Political Economy*, p. 6.

all those things, and those things only, which are transferable, are limited in supply, and are directly or indirectly productive of pleasure or preventive of pain; or, to use an equivalent expression, which are susceptible of exchange; or, to use a third equivalent expression, which have value." He proceeds to explain that by transferableness he means "to express that all or some portion of its [the article's] powers of giving pleasure, or preventing pain, are capable of being transferred, either absolutely or for a period." The reader is not surprised, then, to learn that Senior includes the "greater part, perhaps all, of our personal qualities" among the articles of wealth. "Health, strength and knowledge, and the other natural and acquired powers of body and mind appear to us to be articles of wealth."* Then John Stuart Mill lays down as his definition the following:† "Wealth may be defined all useful or agreeable things which possess exchangeable value; or, in other words, all useful or agreeable things except those which can be obtained in the quantity desired without labor or sacrifice." A few pages later, when he has occasion to use the term, Mill seems to have forgotten his definition; for he says, "It is essential to the idea of wealth to be susceptible of accumulation: things which cannot, after being produced, be kept for some time before being used, are never, I think, regarded as wealth,"—thus, by a single stroke of the pen, drawing an arbitrary line, as Professor Clark ‡ says, in order to exclude from the category of wealth such things as music, the public speech, the products of the "legislator, the judge, the police officer, the soldier." §

Having arbitrarily restricted his definition of wealth, on the one side, he proceeds, just as arbitrarily, to extend it on the other. "The skill and the energy and persever-

* *Political Economy*, p. 9.

† *Principles of Political Economy* (Boston, 1848), vol. i. p. 11.

‡ *The Philosophy of Wealth*, pp. 4 and 5.

§ Mill, *Essays on some Unsettled Questions of Political Economy*, p. 85.

ance of the artisans of a country are reckoned part of its wealth no less than their tools and machinery." * "If the spinning-jenny be wealth, the spinner's skill is also wealth." † Mill, though with some hesitancy, ventures even to the limit, and regards as wealth the "laborer in perfect health and fitness for his employment," † and "children reared to the age at which they become capable of productive industry." †

The economist, overlooking the fundamental and fixing upon some minor attribute as the basis of classification, has evidently confounded things which in nature are essentially distinct, and should be kept separate. The things in man's material environment must never be classed with the physical and mental characteristics and moral qualities of man,—nay, with man himself. The fundamental and universal economic principle reveals clearly to us what the earlier economists did not see; namely, that man, on the one hand, and his material environment, on the other, must be kept logically distinct. Though Professor Clark has clearly shown, by an etymological study of the term, that wealth has never properly comprised physical and mental characteristics and moral qualities, but has rather consisted in "the relative-wealth-constituting elements in man's material environment," — "objective to the user, material, useful, and appropriable," ‡ — it is evident that the conception of wealth does not to-day signify concrete articles of any kind. The term "economic goods," as employed by German and increasingly by French, English and American economists, comprises exactly the objective elements in what Professor Clark has defined as wealth, and should, in the interest of sound theory, be preferably used to express that idea. Even Professor Clark does not hesitate, as will be shown later in this article, to use the term "economic goods" in the sense

* Mill, *Principles*, vol. i. p. 60.

† Mill, *Some Unsettled Questions*, pp. 83, 87, and 88.

‡ Clark, *The Philosophy of Wealth*, p. 4.

in which he has defined wealth, whenever he finds it convenient to give the latter term some other signification.

As the writer has shown in another place,* the conception of wealth has undergone a complete change in the course of history. In that earlier stage of industrial development, when each individual produced and consumed essentially by himself and for himself, although his efforts were put forth in the territorial neighborhood of other men, wealth did signify concrete articles, with the emphasis upon a certain subjective element of comparison. That this is no longer the meaning of the term is capable of complete demonstration.

On the other hand, the term "economic goods" comprises, in every stage of industrial development, the concrete "weal-constituting elements in man's material environment," "except those which can be obtained in the quantity desired without labor or sacrifice." It includes the so-called "air-products" of the lawyer, the doctor, the preacher, the teacher, and the musician, in so far as these are goods at all and cannot be obtained except on the condition mentioned. At the same time, it lays emphasis upon the objective materiality of everything that it comprises.

With the doctrine of economic wants, on the one hand, and that of economic goods, on the other,—the subjective and the objective foundations of our science,—we have reached the point in our analysis at which we may logically examine the fundamental and universal economic relation as such. We are introduced at once, in logical sequence, to the conceptions of utility, value, and wealth.

Utility is an economic quality—no longer thought of as a quality inherent in objective things or conditions, a property of material, which adapts it to a specific use,—a view long maintained by early writers, from whom Karl Marx † received the notion. On the contrary, it eludes

* Tuttle, "The Wealth Concept," in *Annals of the American Academy of Political and Social Science*, vol. i. pp. 615-634.

† *Das Kapital*, chap. i.

the most careful search of him who would seek it among the physical or chemical properties of things. As Jevons * says, "It might be more accurately described, perhaps, as a circumstance of things arising out of their relation to man's requirements." Utility, on the other hand, is not a subjective quality, which man can attribute, at will, to the things in his environment. Yet, though not exclusively either subjective or objective, it may be said to have a point of contact in both man and things. It is, as it were, a sort of economic affinity, steadily attracting man to his material environment. It is usually defined as "the quality of satisfying human wants,—the power to change a man's subjective condition from a lower to a higher degree of happiness." † No objective comparison of things can reveal it. We become aware of its presence only when we look at the *relation* of objective things to man's wants.

Professor Clark's ‡ analysis has clearly shown that utility is a generic term, and that there are different species according to the different ways of viewing things in their relation to man. When Adam Smith § wrote, "Nothing is more useful than water; but it will purchase scarce anything," it is now perfectly clear that he was looking at water in two essentially different ways, without apparently being conscious of the fact. Water, in the abstract, and a given bucket of water are two very different conceptions. When we look at things in the abstract,—as, for example, water, atmospheric air, food, shelter,—in their relation to man's well-being, we acquire the notion of "absolute utility." On the other hand, when we look at things in the concrete,—as, for example, a given bucket of water, a given cubic foot of atmospheric air, a given barrel of flour, a given house,—in their relation to man's well-being, we receive the notion of another species of

* *The Theory of Political Economy*, p. 52.

† Clark, *The Philosophy of Wealth*, p. 77.

‡ *Ibid.*, chap. v.

§ *Wealth of Nations*, vol. i. p. 42.

utility, utterly lacking in some cases, but present in others in different degrees. Professor Clark has called this "effective utility," and defines it as the "power to modify our subjective condition under actual circumstances." It is wanting in the case of the given cubic foot of atmospheric air or of water under natural conditions; while its presence is clearly discernible in the case of the given cubic foot of atmospheric air in the diving-bell, the given bucket of water in the kitchen, the given barrel of flour in the larder and the given house. While "absolute utility" reveals man's immediate and absolute dependence upon nature for existence, its presence to the individual is, ordinarily, theoretical merely. Only under exceptional circumstances is it practically felt. The shipwrecked sailor, cast upon the desert island with his last loaf of bread, suddenly realizes its presence; for to him that given loaf of bread and food are synonymous. The difference between the abstract and the concrete, practically speaking, has to him vanished; "absolute utility" and "effective utility" have become merged. On the other hand, "effective utility" might properly be called economic utility, *par excellence*. Ordinarily and practically, man comes into relation to the concrete things only in his material environment. He goes into business to supply, or to the market to purchase, not food, or shelter, but rather concrete barrels of flour, pounds of meat, a given house.

As it does not come within the scope of this article to present a theory of utility, an analysis of the physical, physiological, psychological and economic grounds of utility cannot be here attempted. Our purpose has been attained, if the fact has been clearly established that utility, as an economic quality, is neither a subjective quality of man nor an objective quality of things, but is rather a qualitative relation between man and things.

The classical economists recognized a relationship of some sort between utility and value, but were unable to

determine its exact nature. Without exception they took one species of value—"value in use"—to be identical with utility. They employed the term "value" in the sense of "value in exchange," and the relation of utility to it remained to them a mystery. "If a commodity were in no way useful," says Ricardo,* "it would be destitute of exchangeable value, however scarce it might be, or whatever quantity of labor might be necessary to procure it. Possessing utility, commodities derive their exchangeable value from two sources:—from their scarcity and from the quantity of labor required to obtain them." John Stuart Mill accepted the doctrine of his predecessors, and regarded the subject as closed. "Happily, there is nothing in the laws of value for the present or any future writer to clear up; the theory of the subject is complete." †

Though other writers, notably J. B. Say, had laid down the hypothesis that utility is the substance of value, the first clear statement of the relation of value to utility was made in an article published in 1855 by the late Professor Karl Knies,‡ of Heidelberg. In this article he clearly shows that value and utility are related to each other as quantitative measure and the thing measured; that utility is a quality of which value is the quantity; that value signifies the degree (*Grad*) of utility; that there is the same logical distinction between value and utility as between height as a quantity and height as a quality, while at the same time there is the same inseparable relation between them. He shows clearly that value, as such, is a generic term, and that "value in use" and "value in exchange" are but different species of the genus value. They both signify the quantitative measure of utility, and at the same time each is characterized by

* *Principles of Political Economy and Taxation*, p. 2.

† Mill, *Principles of Political Economy*, vol. i. p. 521.

‡ "Die Nationalökonomische Lehre vom Werth," in *Zeitschrift für die Gesamte Staatswissenschaft*, xi. (1855) pp. 421-475.

something which stands in direct contrast to that which characterizes the other.

Thus Knies laid the logical foundation upon which Professor Clark and the Austrian economists have been building. "Absolute utility" is immeasurable, and this is what is meant when the utility of atmospheric air is said to be inexpressible. Likewise, that the utility of food, in the abstract, is immeasurable, is evident to one who goes through the mental process of contrasting his condition with food with what it would be without it. On the other hand, "effective utility" is measurable, as one readily sees, when he contrasts his condition with a specific economic good—a given barrel of flour, for instance—with his condition without it. Economic value is the quantitative measure of "effective utility." "Value in use" and "value in exchange" are two species of the genus economic value. They both signify the quantitative measure of "effective utility"; but, while the measurement is made, in the one case, from the point of view of the individual, it is made, in the other, from that of society. Man's relation to external nature is, in the present stage of industrial development, at the same time individual and social.

In primitive times the isolated individual wrested from his material environment, so far as he was able, the economic goods he needed, and applied them to the satisfying of his own wants. The economic relation was completely individualistic—a Crusoe relation. The measuring of utility was an individualistic matter. "Value in use" was the only sort of value of which man had any notion. It is doubtless true that even a Crusoe regarded some things as more useful to him than others; that he estimated, respectively, the amount of their "effective utility" to himself, and that he governed accordingly his actions with reference to them.

What a contrast to the individual's primitive position

of economic isolation is his present position of co-operation and interdependence! The struggle is no longer single-handed. The individual has learned to pool his interests with those of his fellows, and to-day society stands as an organized unit face to face with all nature. The market is stocked with an indefinite and ever-increasing number and variety of economic goods—the results of social production—to meet the ever-multiplying and diversifying wants of man. The process of social differentiation is calling the individual to ever greater specialization. No concrete article results from his effort. He simply touches the material as it passes by him. It is impossible to identify the concrete product of his labor; it is merged, past recognition, in the economic good, which stands as the joint result of social production.

While production has become thoroughly social, “consumption remains an individualistic process.” While in production society is the unit, in consumption the individual is the unit. The individual’s wants continue to be the mainspring of production, and the satisfaction resulting from the utilization of economic goods is purely individualistic. The individual holds a permanent place in the economic process. In production, it is true, he works through society and for society, while society works for him. In consumption, alone, he is truly independent.

Both the individual and the social standpoint, then, are involved in the very nature of the economic process. It has become impossible to explain economic phenomena without both species of value; namely, individual value (“value in use”) and social value (“value in exchange”). The individual must deal with society and society with the individual. In production, the individual serves society, and by a succession of touches imparts social “effective utility” to the passing material. Other things remaining the same, the amount of the product—the social value—marks the extent to which society will

transfer to him, from her well-stocked market, the economic goods he wishes. Society always deals with the individual on the basis of social value. There is no other basis on which they can come together; for society is one, while the individual is legion. If the individual buys, he must deal with society and the condition is clear; whether he buys or not is an individual matter and rests entirely with himself. Every transaction in the market is based upon a comparison of social value and individual value. Wherever the individual value exceeds or equals the social estimate, there the specific economic good finds its final destination in consumption.

Jevons and the Austrian economists have made us familiar with the value concept under the title "final utility." This term, as usually defined, means the degree of utility which the last of a series of similar articles possesses. It implies an intellectual estimate or measurement of the utility of the last article in a series, and is but another name for economic value. As is well known, Jevons* decided to discontinue the use of the word "value" altogether, as "thoroughly ambiguous and unscientific." He said, "Value in exchange expresses nothing but a ratio, and the term should not be used in any other sense," and thought it absurd to speak simply of the value of an ounce of gold. He decided to use in its stead the "unequivocal expression 'ratio of exchange.'" But he came close to the true conception of value, as expressing quantitatively a relation, not between commodities, but rather between commodities and man, when he said: "I am inclined to believe that a ratio is not the meaning which most persons attach to the word 'value.' There is a certain sense of esteem, of desirableness, which we may have with reference to a thing apart from any distinct consciousness of the ratio in which it would exchange for other things. I may suggest that this distinct feeling of value is probably

* *Theory of Political Economy*, pp. 81-83.

identical with the final degree of utility." * In this sense, it would certainly not be absurd to speak simply of the value of an ounce of gold.

Expressed in this new nomenclature, individual value — "value in use" — is "final utility" to the individual; while social value — "value in exchange" — is "final utility" to society. Both conceptions, as expressing the two-fold relation of man to his material environment — the individual and the social — are absolutely necessary to a scientific description of the fundamental and universal economic relation.

It would be foreign to the purpose of this article to attempt an analysis of the psychological processes of individual and social measurements of utility. It has been our aim to make clear, by the light of the fundamental and universal economic principle, that value is not, in any scientific sense of the term, a "ratio of exchange," that it is not "power-in-exchange," or "purchasing power," or "the quantity of some other thing or of things in general." † One cannot get a conception of value, from either the individual or the social point of view, by an objective comparison of specific economic goods,— for example, a pair of shoes and a barrel of flour. To determine the social value of a given pair of shoes, a measurement of its social "effective utility" becomes necessary. The determination of the social value of a given barrel of flour necessitates the same process with reference to that article. So we may go through the whole category of economic goods. The social value of an article, then, in a given market, expresses quantitatively the weal-relation of society to that article, under actual circumstances. An article's social value remains stable so long as there is no change in the weal-relation of society to it. But either subjective or objective changes, or both together, may cause it to fluctuate. It is true that social value serves as the basis for the

* *Theory of Political Economy*, p. 157.

† Mill, *Principles*, vol. i. p. 573.

exchange of articles in the market, but the ratio in which the articles are exchanged is not value. The phrases "power-in-exchange," "purchasing power," "ratio of exchange" suggest the comparison of specific concrete articles with each other, on the basis of social value. Such a comparison gives the conception of price. It is conceivable, in the case of a specific article, that stability of social value may be accompanied by either an increasing or a diminishing "purchasing power," or that a rise of social value may be attended by a constant or a diminishing "purchasing power," and a fall of social value by an increasing or a constant purchasing power. In case all articles should rise or fall in social value in the same ratio, there would ensue no change whatever in "purchasing power." "The power of an article to command in exchange for itself the labor or the products of labor of others in the market" depends upon the relative social values of the articles compared.

An illustration may serve to make clear the distinction between value and "ratio of exchange." Weight is the quantitative measure of heaviness. It is possible to compare material objects on the basis of the common quality heaviness. To express the comparison in the form of a ratio, it becomes necessary to measure the heaviness of the articles in question,—in other words, to ascertain their weight. In case it should be learned that, on the basis of weight, the ratio of a given dog to a given horse is as one to ten, this ratio does not express the weight of either dog or horse, nor does it indicate that the weight of the one is in any way dependent upon that of the other. In fact, the weight of each has been ascertained independently of the other. Further, the same ratio may be preserved while both dog and horse either increase or fall off in weight. Again, a change of ratio from one to ten to one to twelve does not necessarily indicate that the dog has fallen off and the horse increased in weight. On the con-

trary, the change may have been brought about by any one of several possible combinations of changes.

An important corollary follows from our analysis. The greatest practical importance attaches to the standard unit of value. A perfect unit would consist of a constant quantum of social "effective utility"; but such a unit is practically unattainable. No material characterized by perfect stability and universality of social value has yet been discovered, and no other sort of material could serve as the expression of the perfect unit of value. It should be the aim of the state, however, to approximate such a unit as closely as possible. The individual acts on the assumption that the unit of value is invariable. That it always bears the same name — the dollar, for example — serves to impress upon his mind the notion of its unchangeableness. In terms of this unit, all measurements of social "effective utility," all appraisements of property, all estimates of wealth are expressed, and all contracts relating to transfers of capital, the sale and purchase of commodities, and the shares of the claimants in distribution, involving different periods of time and different localities, are drawn up. In fact, the unit of value has become such a vital part of the mental economic equipment of the individual that considerable fluctuations in it become confusing and disastrous.

"What material is best qualified to serve as the expression of the standard unit of value" is the most important question of monetary policy. To answer this question, theoretically, is not difficult. As the most vital function, if not the only one that the standard money material is required to perform, is to serve as the expression of the standard unit of value, it is evident that the closest approximation to perfect stability and universality of social value should be the decisive qualification in making the selection.

To give a practical answer to the question is, however,

not so simple. There was a time when the social value of 23.22 grains of pure gold was approximately the same as that of 371.25 grains of pure silver. Which of the two metals, during the past twenty-five years, has proved to be more stable in value and, therefore, better qualified to serve as the expression of the standard unit of value?

The answer to this question depends, fundamentally, upon the conception of value.

The economist who defines value as "purchasing power," and then affirms that stability of value is the first essential of a money material, cannot, logically, defend the gold standard for the period in question. The silver men may, with perfect consistency, cite such an economist as authority for the claim that, during the past twenty-five years, silver has proved to be better fitted than gold to serve as the standard money material. They do this, firmly believing that the weight of authority is on their side. It must be acknowledged that the classical economists and all those who accept their conception of value are, in the present emergency, promoting the cause of free silver, however emphatically they may assert their opposition to it. An increase in the "purchasing power" of gold signifies to them, as the late Francis A. Walker frankly acknowledged, a rise in the value of gold and falling prices. Says Professor Taussig: "The appreciation of gold is the general fall of prices. The two are not related as cause and effect; they are simply two names for one and the same thing,—namely, a different rate of exchange between gold, on the one hand, and commodities in general, on the other, by which the same amount of gold buys more commodities than before. When the general fall of prices is admitted, the case of the bimetallists as to the appreciation of gold is admitted once for all. Improvements in the production of commodities may explain how it happens that they are more abundant, and exchange on less favorable terms with gold, of which the

quantity has not been increased by new rich mines or great improvements in production; but the fact of the depreciation of commodities or of the appreciation of gold is not thereby explained away."* According to this reasoning, stability of value of the money metal and stability of prices, or "ratios of exchange," are but two names for one and the same thing. This is equivalent to saying that value is "general purchasing power," value is the "ratio of exchange."

On the other hand, when the present writer maintains, as he does, that the closest approximation to stability of social value is the prerequisite characteristic of a standard money material, he means that a given quantity of that material which shall be designated by law as the standard unit of coinage shall possess, irrespective of its relation to other articles, an approximately stable quantum of social "effective utility," and that this shall be the standard unit of value. There is no material that has perfect stability of value; but this circumstance does not excuse the government from making the effort to discover that material which fluctuates the least.

It is generally conceded that the social value of manufactured products has been steadily falling, during the past twenty-five years, on account of the marvellous improvements in the methods and processes of production. It is certainly true that a given manufactured article does not have the same amount of social "effective utility" to-day as formerly. The same may be said of the great agricultural staples. The opening of vast areas of virgin soil to agriculture, under steadily improving methods, and the improved means of transportation, have tended to lower social values here also. A bushel of wheat has been found to possess, during this period, a diminishing quantum of social "effective utility." If the above statements are true, and, further, if it has been found to be a fact that the

* Taussig, *The Silver Situation in the United States*, second edition, p. 106.

“ratio of exchange” between silver, on the one hand, and the great staples of agriculture and manufactures, on the other, has been practically constant during this period, one would be warranted in drawing the conclusion, even if he were in total ignorance of the forces which have been directly operating upon silver, that there has been a fall in the social value of silver, which has practically kept pace with the decline in the value of other articles. If, on the other hand, the “ratio of exchange” between gold, on the one side, and all other articles, including silver, on the other, has been changing during this same period, so that a given quantity of gold has exchanged for an increasing quantity of all other things, what does this reveal with reference to the social value of gold? It certainly does not prove that gold has risen in social value. It may have risen or it may have fallen. What it does prove is simply this: that gold, if it has fallen in value, has not declined at as rapid a rate as other things, including silver.

This is no mere logomachy; it is a question of vital importance. Is the conception of value based upon the comparison of things in exchange, or does the comparison of things in exchange rest upon value? Is value a relation between commodities, or is it, rather, a relation between commodities and man? Our fundamental economic principle shows, conclusively, that there can be logically but one answer to this question. The classical economists, in directing their attention outward towards nature, and thinking especially about the objective relations of things, while man remained in the background, missed the very essence of the value concept. They were really thinking of price, and it is not strange that their attempted distinctions between value and price are not convincing.

Further, had it not been for the erroneous conception of value as “purchasing power,” and the equally erroneous belief that a perfect standard of value is characterized

by stability of "purchasing power," the so-called "Multiple or Tabular Standard" could hardly have been proposed in all seriousness. If money were the only commodity subject to fluctuations of value, the "Multiple or Tabular Standard" would be a beneficial device. But, when one recalls the fact that inventions and improvements in methods and processes have so increased the efficiency of industry that commodities generally have fallen in social value, he readily perceives that any arrangement, which would defeat the general diffusion of these benefits throughout the community, would be positively mischievous. If all contracts were drawn up in terms of the "Multiple or Tabular Unit," the *entrepreneur* class would be enabled to intercept the economic benefits of industrial progress which all classes in the community should share.

There is, perhaps, no better illustration of the mischief that has resulted from the failure to grasp the fundamental economic principle than the classical economists' doctrine of value, which has vitiated all attempts at scientific analysis, and still befogs the popular mind.

We have reached the point in our analysis at which we may make the inquiry: — What is wealth? Again we take our bearings by calling to mind anew the fundamental and universal economic relation. We emphasize, also, the fact that that relation is no longer a Crusoe relation, but one in which all society, as an organized unit, stands opposed to all nature. Society, acting, as it were, as an individual, wrests from nature the almost endless number and variety of economic goods which fill the market; while the individual must deal with society to obtain from her rich and varied store the particular goods he would like to use. The individual's economic condition, as compared with that of other men, has been estimated, in all stages of industrial development, according to the extent to which he, as an individual, can draw, at any

given time, upon his material environment. In that early stage of economic isolation, the individual's relative economic condition was determined by taking an inventory of his material possessions, roughly estimating their amount in terms of area, weight, or number; while, to-day, it is judged by the extent to which he can draw, unassisted, upon the social store. The term "wealth," which originally signified a relative economic condition, came to designate, by a transfer of meaning, that which creates the condition. A person's wealth, then, signified, in the Crusoe stage of development, the economic goods he owned, roughly estimated for the purpose of comparison in terms of area, weight, or number; while, to-day, in the social stage of development, it signifies the quantum of social value the person owns, carefully estimated, for the purpose of comparison, in terms of the unit of social value — the dollar. The writer has elsewhere * designated this conception as the *organic* or *social conception of wealth*.

It is not intended here to imply that an individual's wealth, as a quantum of social value expressible in dollars and cents, can ever exist in an abstract form, detached from all concrete material objects. On the contrary, it is always embodied, so to speak, in economic goods, which constitute the property of somebody. To get at a person's wealth practically, then, one must take an inventory of all the economic goods that person owns, must estimate the quantum of social value they contain, and, after adding the amount of all good claims, must subtract from the total the amount of all debts: the result, expressed in dollars and cents, is his wealth.

The term "wealth" does not suggest any particular economic goods. A's wealth may be in the form of coins, B's in the form of land, buildings and implements, while C's is in the form of horses, cattle and wheat; yet each,

* *Annals of the American Academy of Political and Social Science*, vol. i. p. 632.

in answer to the question: "What is your wealth?" may answer: "It is fifty thousand dollars." There is no difference, either in nature or amount, between A's wealth and B's wealth; but there is a vital difference between coins, on the one hand, and land, buildings and implements, on the other, and between a quantum of social value, on the one hand, and the economic goods which embody it, on the other. A person may aim, perhaps, to keep his wealth intact, but he constantly changes its form of embodiment: he prefers, at one time, coins; at another, horses, cattle and wheat; at another, land, buildings and implements. If the word "wealth" signifies, "when used in the strictest accordance with history and etymology,"* that which determines a person's relative economic condition, there is nothing which to-day answers to the requirement, except a quantum of social value. A is better off than B, not because he owns one thousand bushels of wheat, five hundred head of cattle, and eight hundred horses, while B owns one thousand acres of agricultural land; but, rather, because he owns twenty thousand dollars of social value, while B owns but ten thousand.

For clearness of analysis, we need the two conceptions: wealth and economic goods. The one is, in essence, abstract; and the other, concrete. We have noted the fact that the wealth concept contains a subjective element of comparison, which is utterly lacking in the conception of economic goods; while the latter signifies simply that objective material things stand in a certain relation to man's well-being. It is, indeed, unfortunate that so many economists make the term "wealth" do double duty, using it at one time to signify economic goods and at another in the sense in which we have defined it. But it is especially unfortunate that an economist, after carefully defining the term "wealth" to signify economic goods, "articles of value and nothing else," "the relative-wealth-constituting elements in man's material environment,—objective to

* Clark, *The Philosophy of Wealth*, p. 3.

the user, material, useful, and appropriable," should then proceed to use the term in the abstract sense, in which we have defined it, shifting its application from one conception to the other without any warning, except that which the context affords.

The interests of science would, perhaps, be best served by a nomenclature which would signify the well-defined stages in the historical development of the wealth concept, as, for example, *wealth-condition*, *wealth-goods*, *wealth*. In this nomenclature the simple term "wealth" would naturally be employed to signify the organic or social concept; while the characteristic features of the earlier concepts would be indicated by an adjunct. *Wealth-goods* would, in this case, express the concept which, except for the illogical limitations and extensions of the classical writers, most economists designate as wealth. On the whole, however, it seems to the writer, as already noted, that the term "economic goods," as the designation of this concept, — a term at once more analytical and more clearly in harmony with the fundamental economic relation — would better serve the purpose of sound analysis.

To the logical mind, Professor Clark's definition and use of the term "wealth" must seem strikingly out of place in its pre-eminently analytical environment. In the first place, it is unfortunate, from the point of view of correct analysis, that he should have placed the term in the titles of his books, though in so doing he was following the example of illustrious predecessors. It is, indeed, unfortunate, if in the title of a scientific book a term is used, which — the subject of controversy among economists since the days of Adam Smith — finally fails to find scientific analysis and consistent use within. Such is the case, however, with Professor Clark's analysis and use of the wealth concept, as the writer has pointed out in another place.* In *The Philosophy of Wealth*, Professor Clark

* *Annals of the American Academy of Political and Social Science*, vol. i. pp. 615-634.

devotes the first chapter to the analysis of the conception, and reaches the definition: "Wealth consists in the relative-wealth-constituting elements in man's material environment—objective to the user, material, useful, and appropriable." He then seems to forget the definition and uses the term throughout the rest of the book, more frequently, to designate a quantum of social value. The first chapter of *The Distribution of Wealth* opens as follows: "For practical men, and hence for students, supreme importance attaches to one economic problem—that of the distribution of wealth among different claimants. Is there a natural law according to which the income of society is divided into wages, interest and profits? If so what is that law? This is the problem which demands solution." In this paragraph the term "wealth" is, apparently, used to signify "the income of society," which is "divided into wages, interest and profits." That is, indeed, an extraordinary use of the term. But no, a foot-note would have one understand that "By wealth is meant those sources of human welfare which are material, transferable and limited in quantity. See the first chapter of *The Philosophy of Wealth*, by the author of the present work." This explanation only adds to the confusion of the paragraph; but it makes clear the fact that the author has formally retained his former wealth concept. The student is not surprised, then, to come upon passages like the following: "In every stage of economic evolution, wealth consists of useful material things." "If the goods are of such a kind that by adding to the supply of them you make some one better off, and by taking away from them you make him worse off, they are wealth. Outward material things that are appropriable and, in this specific way, useful are economic goods," in which the terms "wealth" and "economic goods" are applied to the same concept; but he is profoundly disappointed that the author did not consistently, from the beginning, designate this concept by the latter

term, reserving the term "wealth" for that other concept of a quantum of social value, describable in terms of money, to which he so frequently applies it. As a single illustration of the constantly recurring instances of the latter use of the term, the following passage is cited: "The richer a man becomes, the less can his wealth do for him. Not only a series of goods that are all alike, but a succession of units of wealth itself, with no such limitation on its forms, becomes less and less useful per unit. Give to a man not coats, but 'dollars,' one after another, and the utility of the last will still be less than any other. The early dollars feed, clothe and shelter the man, but the last one finds it hard to do anything for him. A dollar, as thus used, means command of a quantity of consumers' wealth indeterminate in its form; and wealth, as such, loses its specific utility, if you give it, unit after unit, to a single consumer."

No student can read Professor Clark's book without the conviction that a prefatory chapter, distinguishing clearly between wealth and economic goods, followed by a consistent use of the terms, would have added much to the clearness of his reasoning. Certainly, such a distinction would have prepared the way for that other distinction between "capital" and "capital-goods," for which Professor Clark pleads so convincingly; and every argument advanced by him for the latter applies with even greater force to the former. To distinguish between "capital" and "capital-goods," without having clearly drawn the line between those broader and more fundamental conceptions of *wealth* and *wealth-goods*, is manifestly a case of incomplete analysis.

The conclusions thus far reached may be summarized as follows:—

I. The clear apprehension of the fundamental and universal economic relation is absolutely essential to all correct reasoning in economics.

II. This fundamental principle indicates the natural and, therefore, logical order in which the fundamental economic conceptions should be analyzed and defined, as follows:—

1. Man's nature and the doctrine of economic wants.
2. Man's material environment—the outside world—and the doctrine of economic goods.
3. Utility, or the qualitative weal-relation of nature to man.
4. Value, or the quantitative weal-relation of nature to man.
5. Wealth, or the relative weal-relation of the individual to his material environment.

It is but natural that so vital an error as the failure to keep clearly in mind the fundamental economic relation, which has vitiated the basal concepts, should result in serious confusions in the analyses of production and consumption. Such is, in fact, the case; and to the gravest of these it remains for us to apply our principle.

The economic cycle embraces two distinct processes; namely, production and consumption. The latter is the goal of the former and, in fact, the reversal of it. As Professor Clark has finely expressed it:—"Man acts on nature in the one process; nature on man in the other." The wants of his being are the motive which impels man to act on his material environment. It is the purpose of production to prepare natural agents for direct application to specific human wants. The product, and, in essence, the only product, is, therefore, "effective utility"; for what else can man create? In every stage of economic development, nature furnishes the materials and man only the modes. We distinguish, in the process of production, four well-defined modes of creating "effective utility," as follows:—

1. The stuff-mode. Man appropriates useful materials in which the elements are arranged according to nature's laws. He sometimes finds these materials after nature

has completed her work with reference to them; but more often, he facilitates the process by making the conditions favorable for nature to do her work of converting intangible elements into tangible materials, which can be directly shaped by him.

2. The form-mode. Man shapes the useful materials — nature's product — according to human patterns, to meet his specific wants.

3. The place and time-mode. The article is brought to the place where it is wanted and held until the time when it shall be wanted, and is then turned over, either to serve as an instrument in further production or to close its career in satisfying a want of man's nature.

4. The "appropriability"-mode. Mankind is protected and secured in the exclusive possession of such concrete articles as belong to them, through the co-operation of "the judge, the legislator, the police officer, the soldier."

Such is the process of production at every stage of which "effective utility" is created. It ceases only when the economic good finds its ultimate goal in satisfying a want of man's nature. Each mode imparts to the material a characteristic property, upon which its contribution to the total value of the article directly rests, and by which it may be fittingly characterized. Karl Knies* discovered in these properties the principle of a very useful classification of value, namely: —

1. "Stuff-value," which rests upon the physical and chemical properties of material.

2. "Form-value," which rests upon the specific form which the material has been given in adapting it, according to a human pattern, to a particular want of man.

3. "Place-value," which depends upon the specific location of the article in space. To this should be added "time-value," which depends upon the specific location of the article in time.

*"Die Nationalökonomische Lehre vom Werth," *Zeitschrift für die Gesamte Staatswissenschaft*, xi. pp. 468-475.

The remarkable fact, as Professor Knies says, that the three great branches of production — agriculture, in the broad sense, manufactures and commerce — are concerned, in the main and characteristically, with the production, respectively, of “stuff-value,” “form-value” and “place-value,” led him to believe in the importance and correctness of his classification.

But Professor Knies's classification is not complete. The principle which he discovered compels the recognition of another kind of value, likewise dependent upon a distinct attribute of material objects, and created by a distinct branch of production. It may be called “appropriability-value,” and depends upon the degree of security with which the exclusive possession of concrete articles can be enjoyed, which Professor Clark has styled “the attribute of appropriability.”* This kind of value is the direct product of the labor of “the judge, the legislator, the police officer, the soldier,” and constitutes a part of the value of every concrete article. The labor which, in rendering the exclusive possession of material objects secure, imparts to them, as it were, “the attribute of appropriability,” creates “effective utility” just as surely and directly as does that which gives specific form to material or specific location to articles in space and time. The difference is one of mode only.

Government, then, has clearly an economic function, and should be classified with agriculture, manufactures and commerce as a distinct branch of production. The material, to be sure, is not turned over to “the judge, the legislator, the police officer, the soldier,” at any particular stage in the process, to receive at their hands the “attribute of appropriability.” Governmental laborers may not even be present in the shop, in the factory, or on the farm; yet, wherever there is an economic good, they have contributed to its value by rendering the exclusive possession of it secure.

* Clark, *The Philosophy of Wealth*, p. 13.

Here, again, Professor Clark's definition of wealth has vitiated his analysis.* He wishes to prove that legislative and judicial labor has an economic function and is productive. He rightly regrets the error which has crept into economic literature through Adam Smith,† who regarded "the labor of some of the most important members of society" as unproductive because it "does not fix or realize itself in any permanent subject or vendible commodity, which endures after that labor is past," and claimed that "the sovereign, for example, with all the officers both of justice and of war who serve under him, the whole army and navy, are unproductive laborers," and as "servants of the public" "are maintained by a part of the annual produce of the industry of other people." It is true, also, that J. B. Say was only one degree nearer to the truth in regarding this important class of laborers as producers, "on the ground that they enable the industrial classes to give their undivided efforts to their own occupation, and thus contribute indirectly to their products." The writer agrees fully with Professor Clark ‡ that "this indirect mode of proving that a class of laborers is productive is extremely objectionable," "that there must be a direct product if they are to be classed as productive laborers." But, says Professor Clark, "if the term productive were to be taken in a narrow sense, as meaning productive, not of wealth, but of specific useful commodities, there would be ground for classing these laborers as unproductive." § It is well here again to recall Professor Clark's definition of wealth as "the relative-wealth-constituting elements in man's material environment—objective to the user, material, useful and appropriable." || Such things are concrete useful commodities, "material, transferable and limited in quantity," ¶ exactly the concept to which we have

* Clark, *The Philosophy of Wealth*, chap. ii. pp. 10-15.

† *Wealth of Nations*, vol. ii. pp. 2 and 3.

‡ *The Philosophy of Wealth*, p. 14. § *Ibid.*, pp. 14 and 15.

|| *Ibid.*, p. 4.

¶ Clark, *The Distribution of Wealth*, p. 1.

applied the term "economic goods." What does Professor Clark mean, then, when he says:—"These classes are protective of useful commodities, but are productive of wealth"?* It would seem that his mind must have reverted to the true conception of wealth as a quantum of social value; but no, the following paragraph reveals that he is still looking at things objectively, just as the classical economists did, and that he has failed to keep the fundamental and universal economic relation clearly in mind. He says: "All labor creates wealth. . . . One class of laborers [legal] create . . . the attribute of appropriability; the other general class create the attribute of utility. The latter is invariably accomplished by producing modifications in natural agents objective to the laborer. Industrial labor is always the applying of a human effort to a natural agent. The modification produced enables the agent to satisfy a want which it was previously incapable of satisfying. This want-satisfying power imparted by labor is a 'utility,'—and, if the attribute of appropriability be also conferred, wealth is created. A natural agent possessing utility and appropriability is wealth, and this only is so."† According to Professor Clark, then, a natural agent, to be wealth, must have two distinct and co-ordinate attributes, namely, "utility" and "appropriability."

Is this correct analysis? Are "utility" and "appropriability" co-ordinate attributes? Now, as a matter of fact, we know that utility is not an attribute of any material agent. It is an economic quality. It expresses the qualitative relation of natural agents to man's wants. The utility of an article depends, objectively, upon a number of co-ordinate attributes. One of these is the legal attribute of appropriability, which governmental labor imparts, as it were, to natural agents; another is the agricultural attribute of stuff, so to speak,—raw-materiality, or such an arrangement of matter as shall make it

* *The Philosophy of Wealth*, p. 15.

† *Ibid.*

useful as material,—which it is the province of agriculture, in the broad sense, to impart or make available; another is the manufactural attribute of specific form, according to a human design, which it is the aim of manufactures to impart; still another is the commercial attribute of specific location in space and time, which it is the recognized function of commerce to impart to material objects. It is clear, then, that Professor Clark is illogical in bringing together “utility” and “appropriability” as co-ordinate qualities, and that his analysis fails to show the economic function of governmental activity. It is not because it imparts the legal attribute of “appropriability” that the labor of “the judge, the legislator, the police officer and the soldier,” is economic; but rather because, by imparting that attribute, it creates “effective utility.” In the same sense the labor of the cabinet-maker is economic, not because it imparts specific form to material, but rather because, by so doing, it creates “effective utility.”

Governmental activity, then, creates economic value directly, and it is upon this fact that the economic justification of taxation rests. A portion of the net product of industry—a quantum of social value expressible in terms of money—is the direct result of governmental activity, and belongs, economically, to the government, just as wages and interest, as shares in distribution, belong, economically, to their respective producers. Custom, which permits land-owner, capitalist, *entrepreneur* and laborer to share the whole net product between them as though it were, in its entirety, the product of their activities, and, therefore, economically speaking, their own, may disguise but it cannot destroy the economic claim of government. So-called economic wages, rent, interest and profits contain each a quantum of value—the direct product of governmental labor—which is held in trust, as it were, by laborer, land-owner, capitalist and *entrepreneur* against the time when the government shall demand it. Taxes,

then, so far as they are kept within the amount of value which legal officers, in imparting "appropriability" to material objects, create, are, economically speaking, not a burden upon the individual who is asked to pay them, just as wages and interest are not an expense to the *entrepreneur*; the government is simply taking its own. Unfortunately, there is no natural law according to which the economic share of government can be objectively determined, and taxes must continue to be assessed on the principle of securing sufficient revenue to enable the government to perform her function effectively.

Clearness of analysis requires that we not only distinguish sharply between production and consumption, but also that we recognize the relation between them. In the one we must see the means and in the other the end. The one stands for the beginning and the other for the completion of the economic process. In consumption the starting-point, which is also the goal, has been reached; nature has reciprocated man's touch and man has been raised thereby from a lower to a higher degree of happiness. The value which came into existence through the action of man upon nature now passes out of existence through the action of nature upon man, and marks the completion of the economic cycle. But the want shortly reappears as a motive, bringing other wants in its train perhaps, and the economic process must be renewed, again and again, to the close of man's earthly existence.

Great care must be taken, then, not to confound instruments of production,—“capital-goods,”—on the one hand, with articles of final consumption,—consumers' goods,—on the other. Yet this is exactly what has been done by a long succession of economists, who define capital to consist in concrete articles devoted to production—exclusive of land and natural agents—and then proceed, by way of illustration, to enumerate as instances of capital, not only tools, machinery, materials and workshops, but

food, clothing and house-room as well,—in fact, everything required to keep the workman in good condition and, therefore, necessary to give effect to labor. Such writers are, seemingly, completely unconscious of the fundamental economic relation; they have no landmarks by which to take their bearings; they are, unwittingly, reasoning in a circle. They do not seem to realize that the workman has labored that he might have bread to eat, clothes to wear, house-room for shelter and a bed for rest; that this is the end to which labor has been the means, and not the reverse; that the utilization of these articles is to satisfy wants, and for no ulterior purpose; that “they are consumed,” as Professor Taussig* puts it, “not to enable work to be done, but as the result of work being done.”

When it is said that economic science treats, fundamentally and universally, of the weal-relation of man to his material environment, by man is meant all mankind, not a class. Slavery dehumanized, so to speak, the workman; put him on nature's side, where he was fed like the ox and the engine, that he might labor. With the attainment of freedom the workman regained his God-given place on man's side, and, economically speaking, became a member of the great human family. But the privileged class continued to think of him and to deal with him as though he were still a part of the material environment, to be exploited for the benefit of the few. Finally, after centuries of struggle, political democracy has become an accomplished fact, and the principle of popular sovereignty is permeating political institutions. These achievements and the inauguration of a parallel movement for the attainment of industrial democracy, have finally awakened in all classes the consciousness of the unity of humanity.

The classical economists had not the benefit of this broad point of view. They observed economic phenomena from the standpoint of the privileged class,—the capitalist-em-

* *Wages and Capital*, p. 35.

ployer. To them the workman was a part of the capitalist-employer's material environment; and wages were not only drawn from a previously accumulated stock, but, when turned over to the laborer, were devoted to production. They did not — nay they could not — look at things from the laborer's view-point, any more than we to-day can look at things from that of the horse and the ox. To them the capitalist-employer maintained the laborer for the sake of the profit he could make out of his labor, identically in the same way that the business man of to-day maintains the horse and the ox. The workman, then, did not seem to labor that he might have things to eat and to wear; but things were given him to eat and to wear, that he might labor. The wages-fund doctrine of the classical economists can appear reasonable only to him who can take the classical economists' point of view, and regard the laborer as a sort of privileged work-animal.

But that point of view belongs to the historic past. The economist of to-day has recognized the unity of humanity, and can take no narrower standpoint. To him the wages-fund doctrine seems unreasonable, because unhuman and uneconomic, and no effort to revive it can be successful.

The narrow view-point of the classical economists, which made the laborer's food, clothing and house-room appear to be "capital-goods," led Adam Smith to specify, as one of several illustrations of capital, "the acquired and useful abilities of all the inhabitants or members of the society." * His statement of the ground for so doing is significant. He says: "The acquisition of such talents, by the maintenance of the acquirer during his education, study or apprenticeship, always costs a real expense, which is a capital fixed and realized as it were in his person. Those talents, as they make a part of his fortune, so do they likewise of that of the society to which he belongs.

* *Wealth of Nations*, vol. i. p. 417.

The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade which facilitates and abridges labor, and which, though it costs a certain expense, repays that expense with a profit." J. B. Say * and John Stuart Mill † were but consistently pursuing this line of reasoning a little farther, when they argued, from the *paterfamilias's* standpoint, that the expense of the mere rearing of a child to the age at which he becomes capable of labor, though no "talent" be given him, is a capital accumulated in the form of a man; while Roscher ‡ goes still farther and calls the state capital.

It is unquestionably true, as Professor Knies § said so forcibly nearly thirty years since, that the first prerequisite to a scientific theory of capital is that the term shall be restricted to economic goods, and shall not, under any circumstances, be used to include man himself, and "abilities," characteristics, and qualities inseparable from his person. A confounding of the subjective and the objective agencies in production renders clear analysis impossible. Capital must be conceived as a distinct force, co-ordinate with labor and natural agents, and must be studied with reference to its bearing upon the economic relation. Only in this way can its true nature and economic significance be apprehended. The authority of Böhm-Bawerk and Professor Clark may be cited as evidence of the speedy fulfilment of Professor Knies's prediction that the time would soon come when, in spite of the classical economists and their followers, man and his personal abilities would be generally rejected from the category of capital.

The application of our principle to the logical divisions of economic science must be reserved for a later article. The purpose of this article has been attained, if, without attempting a detailed analysis of the intricate phenomena

* *Cours Complet d'Économie Politique Pratique*, vol. i. p. 316.

† *Essays on Some Unsettled Questions*, pp. 87 and 88.

‡ Roscher, *Die Grundlagen der Nationalökonomie*, p. 81.

§ Knies, *Das Geld* (Berlin, 1873), pp. 15-22.

of economic life, the writer has succeeded in establishing, in a general way, that a clear conception of the fundamental and universal economic relation — the weal-relation of man to external nature, the economist's "unit of investigation" — the fundamental economic principle, which can alone give unity to economic thought, is an absolute prerequisite to sound economic theory.

CHARLES A. TUTTLE.

WABASH COLLEGE.